Wealth Optimization Proposal

Ann & Alan Esthesia — Barnhart Wealth Management

Prepared by: **Barnhart Wealth Management** · Client: **Ann & Alan Esthesia**

Executive Summary: Why Barnhart Wealth Management

The Esthesia household earns **$555,000** in combined annual income — Ann as a 1099 CRNA contractor and Alan as a W-2 employee — and holds **$1.12 million** across five accounts. The current advisory relationship at XYZ Wealth Management leaves **nine** major planning opportunities untouched, costing the household an estimated **$120,000+ per year** in excess taxes, inflated fund fees, and foregone deductions. Not one of these strategies has been implemented.

TOTAL HOUSEHOLD ASSETS	ANN'S CRNA INCOME (1099)	ALAN'S EMPLOYER INCOME (W-2)	STRATEGIES UNLOCKED
$1,120,000	**$340,000** Restructured via S-Corp	**$215,000** Fidelity 401(k) in place	**9** vs. 0 implemented today

#	Strategy	Primary Benefit	Est. Annual Value
1	S-Corp Election — Ann's CRNA Practice	Eliminate SE tax on $220K+ pass-through	~$12,600/yr
2	Alan on S-Corp Payroll ($40K W-2)	Pre-tax profit sharing + SE structure savings	~$4,270/yr
3	Solo 401(k) — Ann's S-Corp	Roth deferral + Mega Backdoor capacity	$64,800 to Roth
4	Cash Balance Plan — Ann's S-Corp	Shelter $155K; $56,188 fed + MI savings	$56,188/yr
5	Backdoor Roth IRA — Both Spouses	Tax-free retirement for both spouses	$15,000/yr into Roth
6	Mega Backdoor Roth — Solo 401(k)	Large-scale Roth accumulation	$40,300/yr into Roth
7	Direct Indexing + TLH — Taxable Acct	Offset CG at 28.05% combined MI rate	~$5,700/yr
8	S-Corp HDHP Premium + Family HSA ($8,750)	FICA savings + triple-tax HSA benefit	~$12,244/yr
9	Augusta Rule + Home Office — S-Corp Deduction	Convert K-1 income to tax-free rental	~$8,882/yr

Time-Sensitive: Pro-Rata Rule Must Be Resolved Before December 31, 2026 Ann holds a **$168,000 Rollover IRA** and Alan holds a **$197,000 Rollover IRA** at XYZ Wealth — both trigger the IRS pro-rata rule and currently **block the Backdoor Roth strategy entirely**. Both rollovers must be complete before **December 31, 2026** to execute clean Backdoor Roth conversions this tax year.

All-In Cost Comparison: XYZ Wealth vs. Barnhart Wealth Management

All tax savings figures use combined **federal + Michigan (4.25%)** marginal rates throughout.

Current — XYZ Wealth Mgmt	Annual Cost
Advisory Fee (1.25% on $750K AUM)	$9,375
Fund Expense Ratios (0.87% avg, Inst. I-Share)	$6,525
Bond Tax Drag in Taxable Account (fed + MI)	$3,100
No S-Corp / SE Tax Mitigation — Ann	$12,600 missed
No Alan on S-Corp Payroll (PS + SE)	$4,270 missed
No Cash Balance Plan (36.25% combined)	$56,188 missed
No TLH / Direct Indexing (28.05% MI CG)	$5,700 missed
No HDHP Routing + Family HSA	$12,244 missed
No Augusta Rule + Home Office	$8,882 missed
Total Annual Cost + Missed Value	**$118,884**

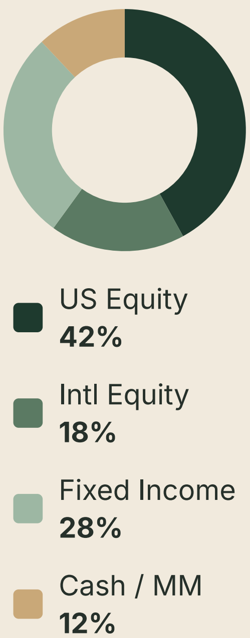
Proposed — Barnhart Wealth Mgmt	Annual Impact
Advisory Fee (1.20% on $1.12M)	$13,440
On Point ETF Expense Ratios (0.09%)	$675
Tax-Optimized Asset Location	$0 bond drag
S-Corp + SE Tax Savings — Ann	-$12,600/yr
Alan on S-Corp Payroll (PS + SE structure)	-$4,270/yr
Cash Balance Plan Tax Savings (36.25%)	-$56,188/yr
Direct Index TLH Alpha (fed + MI)	-$5,700/yr
HDHP Routing + Family HSA	-$12,244/yr
Augusta Rule + Home Office Deduction	-$8,882/yr
Net Annual Benefit After Fee Increase	**~$101,000+**

The advisory relationship pays for itself many times over in year one. After the fee increase of **$4,065/yr**, the proposed structure delivers an estimated **$101,000+ in combined annual tax savings and cost reduction**. XYZ charges no explicit planning fee, but the household is losing over **$118,000 per year** in excess taxes and foregone deductions — and none of nine available strategies has been implemented.

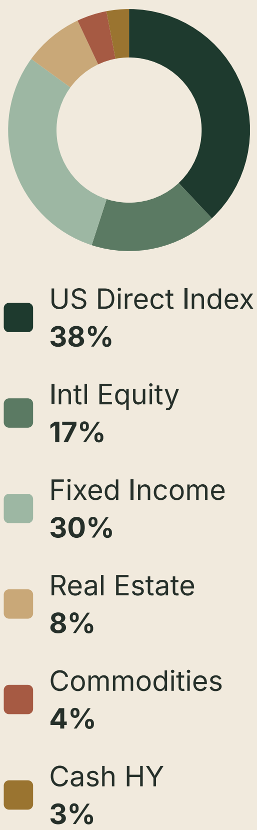
Household Overview — Account Inventory

Account	Owner	Custodian	Balance	Proposed Action
Taxable Brokerage	Ann	XYZ Wealth	$385,000	Transfer to Altruist — enroll in Direct Index
Rollover IRA	Ann	XYZ Wealth	$168,000	Reverse rollover into Solo 401(k) — urgent
Rollover IRA	Alan	XYZ Wealth	$197,000	Roll into Fidelity employer 401(k) — urgent
Employer 401(k)	Alan	Fidelity	$285,000	Stays at Fidelity; monitored by Barnhart Wealth
Joint Savings / Emergency Reserve	Joint	Chase Bank	$85,000	Maintain as 6-month reserve
Solo 401(k) — Roth + After-Tax	Ann	Altruist (proposed)	New — $0	Establish Q3 2026 — On Point Equity Model
Cash Balance Plan	Ann	Altruist (proposed)	New — $0	Establish Q3 2026 with actuary — On Point FI
Total Household Assets			**$1,120,000**	

Current Allocation at XYZ



Proposed Allocation (Altruist)



Income Structure: Ann & Alan — Current vs. Proposed

Income Source	Type	Current Structure	Proposed Structure	Key Change
Ann — CRNA Practice	1099	$340,000 gross (sole prop)	$340,000 S-Corp gross revenue	Entity restructured — S-Corp elected
Ann — W-2 Cash Wages (FICA-subject)	W-2	$0	$105,000	Social Security and Medicare wages
Ann — W-2 HDHP Premium (Box 1 only)	W-2	$0	$15,000	Box 1 only — excluded from FICA per IRC §3121
Ann — W-2 Total Box 1	W-2	$0	$120,000	$105K cash + $15K HDHP = $120K Box 1
Ann — S-Corp K-1 Distribution	K-1	$0 (all sole prop SE)	$180,000	Not subject to FICA or SE tax

Income Source	Type	Current Structure	Proposed Structure	Key Change
Ann — Augusta Rule Rental Income	Tax-Free	$0	$21,000 tax-free	IRC §280A(g) — 14 days max; not reported
Alan — Employer Income	W-2	$215,000	$215,000	Unchanged — Fidelity 401(k) in place
Alan — S-Corp W-2 (new)	W-2	$0	$40,000	Documented practice services — new PS capacity
Combined Gross Household Income		**$555,000**	**$555,000 + $21,000 tax-free**	**Restructured — not increased**

Current Portfolio: What XYZ Is Costing You

XYZ ADVISORY FEE RATE
1.25%
$9,375/yr on $750K AUM

AVG MUTUAL FUND ER (INST. I-SHARE)
0.87%
$6,525/yr in embedded fund costs

ALL-IN INVESTMENT COST
2.12%/yr
$15,900/yr before tax drag

Current Holding (Institutional I-Share)	ER	Issue
Amer. Funds Growth Fund of America (GFAFX)	0.65%	ETF equivalent (SCHG) costs 0.04%
Amer. Funds EuroPacific Growth (AEPFX)	0.84%	ETF equivalent (VXUS) costs 0.07%
Invesco Comstock Inst. (IVLUX)	0.96%	Active mgmt premium unjustified by results
Franklin Income Inst. (FRIOX)	0.62%	Tax-inefficient distribution profile in taxable
PIMCO Total Return Inst. (PTTRX)	0.71%	Bond income taxed at 36.25% combined in taxable
BlackRock Multi-Asset Income Inst. (BMINX)	0.89%	Duplicate exposure; high cost
Transamerica Asset Alloc. Moderate Inst. (TAIFX)	1.19%	Highest cost in portfolio; no TLH capability
MFS International Growth Inst. (MGRIX)	1.08%	Duplicates AEPFX exposure at 2x the cost

Current Holding (Institutional I-Share)	ER	Issue
Weighted Average — Current I-Share Portfolio	**0.87%**	**On Point ETF equivalent: 0.09% — saves $5,850/yr**

Strategy 1 — S-Corp Election + Alan on S-Corp Payroll

ANN'S 1099 CRNA INCOME	ANN'S W-2 CASH WAGES (FICA-SUBJECT)	ANN'S S-CORP K-1 DISTRIBUTION	EST. ANNUAL SE TAX SAVINGS
$340,000	**$105,000**	**$180,000** Not subject to FICA or SE tax	**~$12,600/yr**

Item	Current (Sole Proprietor)	Proposed (S-Corp)
Total CRNA Income	$340,000	$340,000
FICA / SE Tax Wage Base	~$313,900 (all net SE earnings)	$105,000 (FICA cash wages only)
Estimated Annual FICA / SE Tax — Ann	$30,940	$16,065 (on $105K cash wages)
QBI Deduction — 20% of S-Corp income (est.)	Minimal	~$20,000 additional deduction
QBI Tax Savings — Combined Fed + Michigan 36.25%	—	~$7,250/yr
S-Corp Admin and Payroll Overhead (est.)	$0	$2,400/yr
Net Annual SE Tax + QBI Savings (After Admin)		**~$17,450/yr (fed + MI)**

Alan on the S-Corp Payroll — Quantified

Alan on S-Corp Payroll — Benefit	Amount	Annual Tax / Savings Value
Alan's W-2 from S-Corp (documented services)	$40,000	—
S-Corp Employer Profit-Sharing (25% of $40K)	$10,000	—
Federal Tax Savings on $10K Deferral (32%)	$10,000	$3,200
Michigan Tax Savings on $10K Deferral (4.25%)	$10,000	$425

Alan on S-Corp Payroll — Benefit	Amount	Annual Tax / Savings Value
SE Structure Savings (avoiding additional exposure)	—	~$645/yr
Total Est. Annual Value — Alan on S-Corp Payroll		**~$4,270/yr**

Strategy 2 — Solo 401(k) + Cash Balance Plan

SOLO 401(K) EMPLOYEE DEFERRAL
$24,500
2026 IRS limit — designated Roth

SOLO 401(K) EMPLOYER (6% OF $120K W-2)
$7,200
Limited to 6% when paired with CB

CASH BALANCE CONTRIBUTION (AGE 45)
$155,000
Actuarially calculated — fully deductible

TOTAL PRE-TAX DEDUCTION
$186,700

Plan Component	2026 Contribution	Federal (32%)	Michigan (4.25%)	Combined Savings
Solo 401(k) — Ann Roth Employee Deferral	$24,500	$7,840	$1,041	$8,881
Solo 401(k) — Employer Profit Sharing (6%)	$7,200	$2,304	$306	$2,610
Cash Balance Plan — Ann (age 45, actuarial)	$155,000	$49,600	$6,588	$56,188
Alan S-Corp Employer Profit Sharing (25%)	$10,000	$3,200	$425	$3,625
Total Pre-Tax Retirement Contributions	**$196,700**	**$62,944**	**$8,360**	**$71,304**

Strategy 3 — Backdoor Roth IRA + Mega Backdoor Roth

BACKDOOR ROTH — ANN
$7,500/yr
Nondeductible IRA to Roth conversion

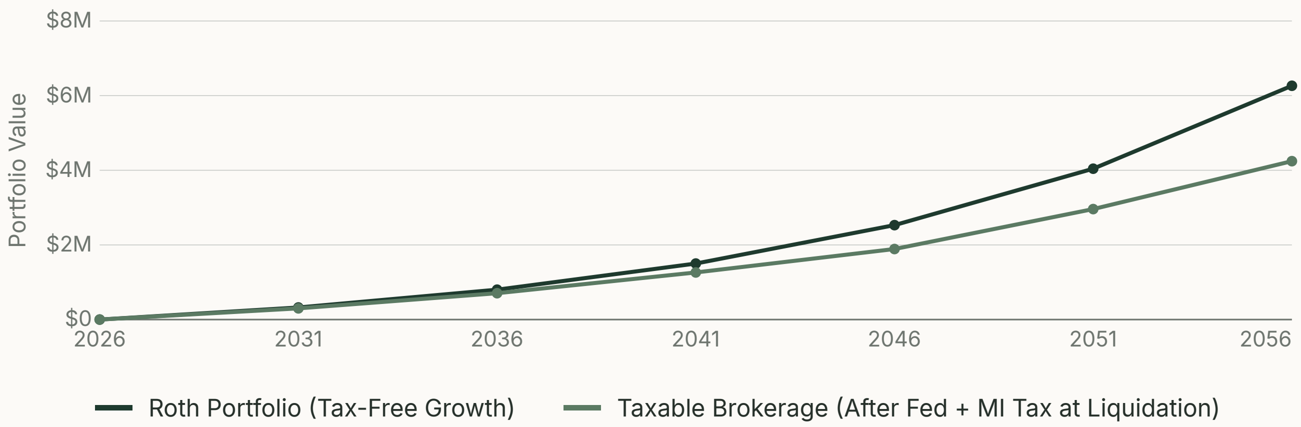
BACKDOOR ROTH — ALAN
$7,500/yr
Spousal backdoor Roth conversion

MEGA BACKDOOR — SOLO 401(K)
$40,300/yr
After-tax to Roth in-plan conversion

The Pro-Rata Trap: Clear It Before Converting With **$365,000 in existing Rollover IRAs** across both spouses, the IRS pro-rata rule makes approximately **97% of any backdoor Roth conversion fully taxable** at a combined 36.25% rate in Michigan. **Fix:** Roll Ann's $168,000 into the Solo 401(k); roll Alan's $197,000 into his Fidelity 401(k). Both must be complete by **December 31, 2026**.

Backdoor Roth Detail	Ann	Alan	Combined
Annual IRA Contribution (nondeductible)	$7,500	$7,500	$15,000
30-Year Roth Value (8% growth)	$849,600	$849,600	$1,699,200
30-Year Taxable Equivalent (after 28.05% CG)	$529,000	$529,000	$1,058,000
30-Year Per-Person Roth Advantage	+$320,600	+$320,600	+$641,200

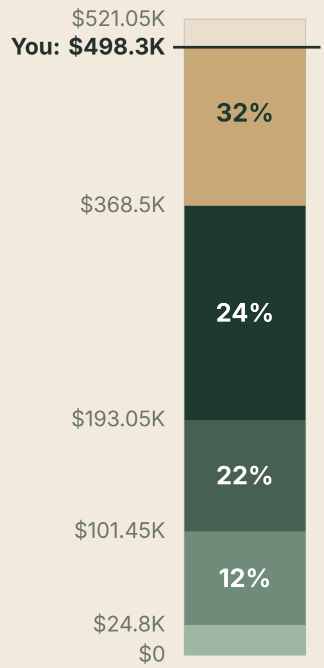
Total Household Roth vs. Taxable — 30-Year Projection ($55,300/yr)



Current vs. Proposed Tax Position (Federal + Michigan)

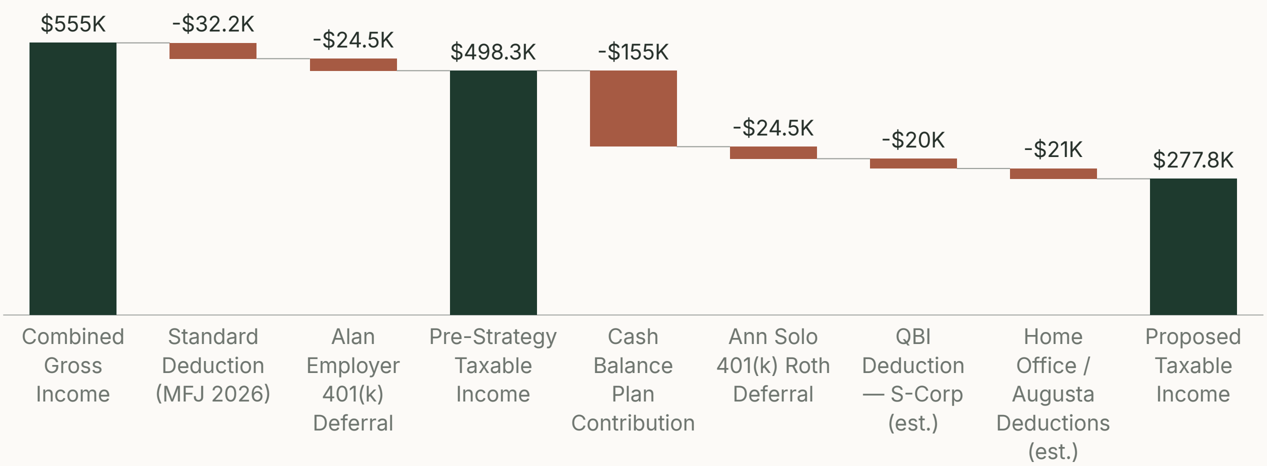
Current Federal Tax Ladder — 2026 Projected (Before Proposed Strategies)

Taxable income **$498,300** · Effective **23.2%** · Marginal **32%**



RATE	TAX PAID	INCOME TAXED HERE
room	—	$22,750 before 35%
32% MARGINAL	$41,536	$129,800 $368.5K – $498.3K
24%	$42,108	$175,450 $193.05K – $368.5K
22%	$20,152	$91,600 $101.45K – $193.05K
12%	$9,198	$76,650 $24.8K – $101.45K
10%	$2,480	$24,800 $0 – $24.8K

2026 Taxable Income: Current vs. Proposed



Current Taxable Income	Proposed Taxable Income	Income Reduced by All Strategies
$498,300	**$277,800**	**$220,500**
Current Combined Rate (Fed + MI)	Proposed Combined Rate (Fed + MI)	Marginal Rate Drop
36.25%	**28.25%**	**36.25% to 28.25%**
Est. Current Combined Tax	Est. Proposed Combined Tax	Est. Combined Fed + MI Tax Savings
~$136,652	**~$57,199**	**~$79,453**

Proposed Portfolio: On Point Equity + Fixed Income Models

Ticker	On Point Equity Model — 15 Holdings	Category	Weight	ER
VTI	Vanguard Total Stock Market ETF	US Total Market	22%	0.03%
VOO	Vanguard S&P 500 ETF	US Large Blend	12%	0.03%
SCHG	Schwab US Large Cap Growth ETF	US Large Growth	8%	0.04%
VBR	Vanguard Small Cap Value ETF	US Small Value	6%	0.07%
AVUV	Avantis US Small Cap Value ETF	US Small Factor	4%	0.25%
SCHD	Schwab US Dividend Equity ETF	US Dividend Growth	6%	0.06%
VYM	Vanguard High Dividend Yield ETF	US High Dividend	4%	0.06%
QQQ	Invesco Nasdaq-100 ETF	US Large Tech	5%	0.20%
VNQ	Vanguard Real Estate ETF	Real Estate (REIT)	5%	0.12%
VXUS	Vanguard Total Intl Stock ETF	Intl Total Market	10%	0.07%
VEA	Vanguard FTSE Developed Markets ETF	Developed Markets	6%	0.05%
VWO	Vanguard FTSE Emerging Markets ETF	Emerging Markets	4%	0.08%

Ticker	On Point Equity Model — 15 Holdings	Category	Weight	ER
GLD	SPDR Gold Shares	Gold / Commodities	3%	0.40%
IAU	iShares Gold Trust	Gold / Commodities	3%	0.25%
IGSB	iShares Short-Term Corp Bond ETF	Short-Term Bond Buffer	2%	0.06%
	Weighted Avg Expense Ratio		**100%**	**0.09%**

Ticker	On Point Fixed Income Model — 9 Holdings	Category	Weight	ER
BND	Vanguard Total Bond Market ETF	Core Bond	30%	0.03%
VGSH	Vanguard Short-Term Treasury ETF	Short-Term Govt	15%	0.04%
VCSH	Vanguard Short-Term Corp Bond ETF	Short-Term Corp	15%	0.04%
VGIT	Vanguard Intermediate Govt ETF	Intermediate Govt	10%	0.05%
MUB	iShares National Muni Bond ETF	Tax-Exempt Municipal	10%	0.05%
HYG	iShares iBoxx High Yield Corp Bond	High Yield Credit	8%	0.48%
BNDX	Vanguard Total Intl Bond ETF	International Bond	5%	0.07%
TIP	iShares TIPS Bond ETF	Inflation Protected	5%	0.19%
EMB	iShares JP Morgan EM Bond ETF	Emerging Market Bond	2%	0.39%
	Weighted Avg Expense Ratio		**100%**	**0.09%**

Direct Indexing + Tax-Loss Harvesting

TAXABLE ACCOUNT BALANCE	EST. YEAR 1 TAX ALPHA RATE	EST. YEAR 1 TLH SAVINGS (FED + MI)	10-YEAR CUMULATIVE TLH VALUE
$385,000	**~1.40%**	**~$5,700**	**~$51,000**
Ann's brokerage — prime DI candidate	Altruist backtest benchmark		Including Michigan CG savings

Year	Portfolio Value (est.)	Tax Alpha Rate	Annual TLH Savings (Fed + MI)	Cumulative Savings
1 (2026)	$385,000	1.40%	$5,700	$5,700
2 (2027)	$415,800	1.25%	$5,476	$11,176
5 (2030)	$523,788	0.85%	$4,697	$25,944
10 (2035)	$757,225	0.60%	$4,798	$51,000
10-Year Total				**~$51,000**

Strategy 8 — S-Corp HDHP Premium + Family HSA Contribution

Routing the **$15,000 family HDHP premium** through the S-Corp as a greater-than-2% shareholder unlocks a FICA exclusion and backs into the $120,000 W-2 figure. Maximizing the **$8,750 family HSA** creates a triple-tax-advantaged account the household is currently forfeiting entirely.

Part A: HDHP Premium — How the $120,000 W-2 Is Structured

Ann's W-2 Box Breakdown	Amount	Box 1 (Income Tax)	Box 3 & 5 (FICA)
Cash Wages (FICA-subject compensation)	$105,000	Yes	Yes
HDHP Family Premium (>2% Shareholder)	$15,000	Yes	No — excluded per IRC §3121
Total W-2 Box 1 Income	$120,000	Full amount	$105,000 FICA base
FICA Employee Savings (7.65% x $15K)	$1,148	—	Saved annually
FICA Employer Savings (7.65% x $15K)	$1,148	—	Saved annually
Total FICA Savings on HDHP Premium Routing	**$2,295/yr**	**—**	**vs. paying as all-cash wages**

Part B: Maximum Family HSA — $8,750 (2026 IRS Limit)

Family HSA — Annual Tax Benefit	Amount	Federal	Michigan	Combined
2026 Family HSA Max Contribution	$8,750	—	—	—
Income Tax Savings (above-the-line deduction)	$8,750	$2,800 (32%)	$372 (4.25%)	$3,172
FICA Savings — Employee + Employer (15.3%)	$8,750	$1,339	—	$1,339
Subtotal — Annual Tax Savings on HSA	—	—	—	$4,511
HDHP Premium FICA Savings (Part A)	$15,000	$7,733	—	$7,733
Total Strategy 8 Annual Tax Benefit				**~$12,244/yr**

HSA at Age 65: Any Withdrawal — No Penalty, Just Ordinary Income Tax At **$8,750/yr invested at 6%**, the Esthesia family's HSA reaches **$321,000 by year 20** — entirely tax-free for qualified medical expenses. After age 65, any withdrawal is simply taxed as ordinary income (like a traditional IRA) but with **no required minimum distributions**. Michigan HSA deduction conformity should be confirmed with a Michigan-licensed CPA. See full disclosures.

Strategy 9 — Augusta Rule + Home Office Deduction

Two distinct but complementary strategies are available through the intersection of Ann's home, her S-Corp, and the tax code. The **Augusta Rule** (IRC §280A(g)) allows Ann to rent her personal residence to her S-Corp for up to 14 days per year — converting what would otherwise be taxable S-Corp income into **completely tax-free rental income**. The **Home Office Deduction** through the S-Corp accountable plan separately creates a recurring deductible business expense for the portion of the home used exclusively and regularly for practice administration. Combined, these two strategies are estimated to deliver **$8,882 in annual tax savings** without changing how the household lives or operates.

Part A: The Augusta Rule — 14 Days of Tax-Free Rental Income

Under IRC §280A(g), if a taxpayer rents their personal residence for **fewer than 15 days** in a calendar year, the rental income is **not included in gross income** and the taxpayer is **not required to report it** on Schedule E or anywhere on the tax return. The expenses attributable to the rental are also not deductible. However, the **S-Corp deducts the rental payments** as a legitimate business expense — reducing the S-Corp's taxable income and the K-1 income flowing through to Ann. The net effect is a conversion of taxable K-1 income into tax-free rental income.

DAYS RENTED TO S-CORP (MAX ALLOWED)	ESTIMATED DAILY RENTAL RATE	TOTAL ANNUAL AUGUSTA RENTAL INCOME	S-CORP DEDUCTION VALUE (36.25%)
14 days	**$1,500/day**	**$21,000**	**$7,613**
Must not exceed 14 to preserve exclusion	Comparable local meeting/event venue rate	Ann receives — completely tax-free	Deduction reduces K-1 income at 36.25%

Augusta Rule — Mechanics and Tax Impact	Without Strategy	With Augusta Rule
Days per year home rented to S-Corp	0 days	14 days (max per IRC §280A(g))
Daily rental rate (comparable venue documentation)	—	$1,500/day
Annual rent paid by S-Corp to Ann	$0	$21,000
Ann reports rental income on tax return	N/A	No — excluded under IRC §280A(g)
Ann's federal income tax on rental income	N/A	$0
Ann's Michigan income tax on rental income	N/A	$0
S-Corp deducts $21,000 as business expense	$0 deduction	$21,000 deduction
S-Corp / K-1 tax savings (36.25% combined)	$0	$7,613

What qualifies as a business purpose for the 14 rental days? The S-Corp should hold bona fide business events at the residence — annual strategy and planning meetings, board-equivalent sessions, client education events, staff training, or partner meetings. Each day should be documented with an agenda, attendee list, and business purpose. The rental rate must be established by reference to comparable local commercial venues and documented in writing before the rental occurs.

Part B: Home Office Deduction via S-Corp Accountable Plan

As an S-Corp employee (as Ann now is under the proposed structure), Ann may not take the home office deduction directly on Schedule A (TCJA eliminated miscellaneous itemized deductions for employees through 2025, and the suspension likely continues). However, the S-Corp may reimburse Ann for home office expenses under a properly maintained **IRS accountable plan**. Reimbursements are deductible by the S-Corp and are not included in Ann’s W-2 income — making this a clean business deduction.

Home Office — Accountable Plan Calculation	Est. Amount	Notes
Home square footage (estimated)	2,500 sq ft	Verify actual square footage
Dedicated office square footage (estimated)	250 sq ft	Exclusive and regular use required by IRC §280A

Home Office — Accountable Plan Calculation	Est. Amount	Notes
Office as % of home	10%	Proportionate allocation for all home expenses
Annual mortgage interest + property taxes (est.)	$28,000	Actual amounts from mortgage statement and tax bill
Annual utilities + insurance + maintenance (est.)	$7,000	Proportionate; verify with CPA
Total annual home expenses allocated to office (10%)	$3,500	Deductible via S-Corp accountable plan reimbursement
Federal Tax Savings (32%)	$1,120	S-Corp deduction reduces K-1 income
Michigan Tax Savings (4.25%)	$149	Michigan taxable income reduced proportionately
Annual Home Office Tax Savings (Fed + MI)	**~$1,269**	**Excludes depreciation — discuss with CPA**

Strategy 9 Summary	Annual Tax Benefit (Fed + MI)	Tax Authority
Augusta Rule — 14 days x $1,500/day rental	$7,613	IRC §280A(g) — Rental income exclusion
Home Office — S-Corp Accountable Plan Reimbursement	$1,269	IRC §280A — Exclusive and regular use
Total Strategy 9 Annual Tax Benefit	**~$8,882/yr**	**Requires documentation and CPA review**

Documentation Is the Difference Between a Deduction and an Audit Finding The Augusta Rule is a legitimate provision of the tax code — but it requires **rigorous documentation**. Before each rental period: (1) obtain comparable commercial venue quotes documenting the $1,500/day rate, (2) draft a written rental agreement between Ann and the S-Corp, (3) prepare an agenda for each business meeting held at the home. After each day: retain attendee sign-in sheets and brief minutes. The S-Corp should issue no Form 1099 or W-2 for the rent — doing so is incorrect and triggers erroneous income reporting. Ann does **not** report the income anywhere on her return if the total rental days remain below 15. The home office must also be used **exclusively and regularly** for practice administration; shared personal use disqualifies the deduction. **These strategies must be reviewed and maintained annually by a qualified CPA familiar with self-employed health professional practices.**

Asset Location Strategy

Account	Tax Character	Proposed Holdings	Rationale
Ann's Taxable Brokerage	Taxable	Altruist US Large-Cap Direct Index	TLH offsets 28.05% combined MI CG rate
Ann's Solo 401(k) — Roth	Roth	On Point Equity — high-growth equity	Tax-free compounding; no MI or federal tax ever
Ann's Cash Balance Plan	Pre-Tax	On Point Fixed Income	Bond income deferred; avoids 36.25% combined drag
Alan's Employer 401(k)	Pre-Tax	On Point Fixed Income + Core Equity	Shields ordinary income from 36.25% combined rate
Ann & Alan's HSA	Triple-Tax	On Point Equity (growth-tilted)	Longest horizon; tax-free growth; no RMD — invest, do not spend

Cost of Inaction: What Staying Costs Per Year

What You Lose Each Year	Annual Cost (Fed + MI)	Notes
SE Tax Overpayment — Ann (no S-Corp)	$12,600	Unnecessary FICA on $194K above cash wages
QBI Deduction Foregone (36.25%)	$7,250	$20K QBI deduction not captured
Alan Not on S-Corp Payroll (PS + SE savings)	$4,270	Profit-sharing + SE structure savings missed
Excess I-Share Mutual Fund Expenses (0.78%)	$5,850	Paying 0.87% vs. 0.09% on $750K AUM
Bond Tax Drag in Taxable Account (36.25%)	$3,100	Fixed income generating ordinary income in wrong account
Cash Balance Plan Deduction Foregone (36.25%)	$56,188	$155K deduction x 36.25% not taken
No Direct Indexing / TLH (28.05% MI CG rate)	$5,700	1.4% tax alpha on $385K taxable account foregone
No HDHP Routing + Family HSA ($8,750)	$12,244	FICA exclusion and triple-tax HSA never used
No Augusta Rule + Home Office Deduction	$8,882	$21K tax-free rental + $3.5K home office deduction missed

What You Lose Each Year	Annual Cost (Fed + MI)	Notes
Total Annual Quantifiable Cost of Inaction	**$116,084/yr**	**Before Roth + HSA compounding opportunity cost**

Roth, HSA, and Augusta Rule — Three Permanent Compounding Penalties Beyond the $116,084 in annual quantifiable costs: each year without Backdoor Roth forfeits **$55,300 of tax-free Roth growth**; each year without the HSA forfeits **$8,750 of triple-tax compounding**; and each year without the Augusta Rule leaves **$21,000 of tax-free income** on the table that simply flows out as taxable K-1 income instead. None of these can be recaptured retroactively.

Combined Strategy Value — Before and After

EST. ANNUAL TAX + COST SAVINGS (FED + MI)
~$101,000+
Before Roth + HSA compounding benefit

30-YEAR ROTH ADVANTAGE (FED + MI CG RATE)
$2,020,000
Total Roth vs. taxable portfolio

EST. 20-YEAR STRATEGY VALUE (ALL 9)
$2,800,000+
Roth + HSA + TLH + tax savings compounded

Attribute	Today — XYZ Wealth	★ Proposed — Barnhart Wealth
Advisory Fee Rate	1.25% on $750K	1.20% on $1.12M
Avg Fund Expense Ratio (Inst. I-Share)	0.87%	0.09% ETFs
Business Structure — Ann	Sole Proprietor	S-Corp Elected
Annual FICA on Ann's W-2	$30,940 SE tax	$16,065 (on $105K cash wages)
HDHP Routing (>2% Shareholder)	None — paying after-tax	$2,295+ FICA savings annually
Alan on S-Corp Payroll	None	$10,000 PS + SE structure
Cash Balance Plan (36.25% combined)	None	$56,188/yr deduction
Backdoor Roth IRA	Blocked — pro-rata rule	$15,000/yr both spouses
Mega Backdoor Roth	N/A — no Solo 401(k)	$40,300/yr Solo 401(k)
Family HSA Max ($8,750)	Not funded	Maxed annually — triple-tax
Direct Indexing / TLH (MI 28.05%)	None	Active — Michigan CG-aware
Augusta Rule (IRC §280A(g))	None — $21K taxed as K-1 income	$21K tax-free + $7,613 S-Corp deduction
Home Office — S-Corp Accountable Plan	None	$3,500 deduction — $1,269 saved
Combined Marginal Rate (Fed + MI)	36.25%	28.25% — down 8 points
Est. Annual Combined Tax (Fed + MI)	$136,652	$57,199
Est. 20-Year Strategy Value	$0 implemented	$2,800,000+

Recommended Implementation Roadmap

1. File S-Corp election (Form 2553) for Ann's CRNA practice. Engage CPA for reasonable compensation analysis: $105,000 cash wages + $15,000 HDHP premium = $120,000 W-2 Box 1. Set up payroll and quarterly Michigan + federal estimated tax payments.
2. Confirm the family health plan qualifies as an HDHP under IRC §223(c)(2). 2026 requirements: min. family deductible $3,400; max. out-of-pocket $17,000. Route the $15,000 premium through S-Corp payroll: Box 1 yes, Box 3/5 excluded per IRC §3121(a)(2). Ann takes self-employed health insurance deduction on Schedule 1.
3. Fund the 2026 family HSA maximum of $8,750 through S-Corp payroll using the same >2% shareholder treatment. Invest HSA contributions — do not spend on current expenses — to maximize triple-tax compounding. CPA to confirm Michigan conformity and FICA exclusion treatment in writing.
4. Establish the Augusta Rule protocol before the first rental event. Obtain three comparable commercial venue quotes supporting the $1,500/day rental rate and retain on file. Draft a written rental agreement between Ann and the S-Corp. Schedule 14 business meetings or strategy sessions at the residence for the calendar year. Document each with an agenda, attendee list, and business purpose summary. Issue no 1099 or W-2 for the rental — Ann does not report the income.
5. Establish the home office under an S-Corp accountable plan. Measure the dedicated office space and calculate the percentage of home. Document exclusive and regular business use. CPA prepares reimbursement calculations based on actual home expenses (mortgage interest, property taxes, utilities, insurance). S-Corp reimburses Ann; deducts the reimbursement as a business expense. No inclusion in Ann's W-2.
6. Document Alan's services to the S-Corp and establish his $40,000 W-2 payroll. Retain written service agreements. CPA confirms the $10,000 employer profit-sharing is properly structured and deductible.
7. Engage a pension actuary to design the Cash Balance Plan and Solo 401(k). Confirm the Solo 401(k) permits after-tax contributions and in-plan Roth conversions for the Mega Backdoor Roth.
8. Execute both Rollover IRA reverse rollovers before December 31, 2026: Ann's $168,000 into the Solo 401(k) at Altruist; Alan's $197,000 into his Fidelity employer 401(k). Both must be complete by year-end to clear the pro-rata rule.
9. Execute Backdoor Roth IRA contributions: Ann ($7,500) and Alan ($7,500) = $15,000 combined. Convert to Roth within days. File IRS Form 8606 for both spouses. Confirm no pre-tax IRA balances remain December 31.
10. Transfer Ann's taxable brokerage ($385,000) from XYZ Wealth to Altruist. Coordinate with CPA on embedded gains from liquidating Institutional I-share positions. Enroll in the Altruist US Large-Cap Direct Index strategy.
11. Fund the Solo 401(k): $24,500 Roth deferral + $7,200 employer profit sharing (Ann) + $10,000 employer profit sharing (Alan) + $40,300 after-tax Mega Backdoor Roth. Execute in-plan Roth conversion before December 31.
12. Fund the Cash Balance Plan before the S-Corp tax return due date. Confirm exact actuarially calculated amount with the enrolled actuary. CPA captures the deduction on the S-Corp return for full Michigan + federal benefit.

IMPORTANT DISCLOSURES — PLEASE READ IN FULL BEFORE PRESENTING TO ANY CLIENT

GENERAL DISCLAIMER. This proposal is prepared for **informational and illustrative purposes only** and does not constitute tax, legal, accounting, benefits, actuarial, or investment advice of any kind. The names, account balances, income figures, plan designs, and strategy assumptions are **hypothetical** and intended solely to demonstrate planning concepts for template purposes. No reliance should be placed on any figure without verification against actual client-specific facts, applicable law, and qualified professional advice.

PROFESSIONAL CONSULTATION REQUIRED. Every strategy in this proposal — including the S-Corp election, cash balance plan, backdoor Roth, mega backdoor Roth, HDHP routing, HSA, Augusta Rule, and home office deduction — carries material legal, tax, and compliance requirements. All must be reviewed by a qualified CPA, tax attorney, enrolled actuary, and benefits specialist before implementation. This proposal does not establish any professional relationship of any kind.

S-CORP ELECTION AND REASONABLE COMPENSATION. Reasonable W-2 compensation must be established using documented methodology and is subject to IRS examination. The QBI (Section 199A) deduction may be limited or unavailable for certain specified service trades or businesses (SSTBs); whether Ann's CRNA practice qualifies requires independent CPA analysis. S-Corp elections are subject to IRS deadlines.

GREATER-THAN-2% SHAREHOLDER HDHP AND HSA ROUTING. Health insurance premiums and HSA contributions for greater-than-2% S-Corp shareholders must be included in W-2 Box 1 and excluded from Box 3 and Box 5 per IRC §3121(a)(2) and established IRS guidance. The shareholder then claims the self-employed health insurance deduction under IRC §162(l) on Schedule 1. For HSA contributions specifically, the IRS has not issued definitive guidance confirming FICA exclusion for greater-than-2% shareholder contributions routed through S-Corp payroll; the treatment stated here is based on analogy to health insurance premium treatment and is not free from challenge. Taxpayers should obtain written professional advice before treating HSA contributions as FICA-exempt under this structure. If Ann is already deducting the HDHP premium as a sole proprietor, the incremental S-Corp income tax benefit is zero; the incremental benefit is limited to FICA savings of approximately $2,295/yr. Verify current deduction treatment with your CPA before projecting any savings.

HDHP QUALIFICATION. For 2026, a High-Deductible Health Plan must have a minimum annual deductible of $1,700 (self-only) or $3,400 (family) and maximum out-of-pocket of $8,500 (self-only) or $17,000 (family), per IRS Revenue Procedure 2025-19. Failing to qualify renders HSA contributions ineligible and may result in tax penalties. Eligibility is month-by-month. Disqualifying events (Medicare enrollment, coverage under another plan providing first-dollar benefits, etc.) must be monitored annually.

HSA CONTRIBUTION LIMITS — 2026. The 2026 HSA family contribution limit is $8,750 per IRS Revenue Procedure 2025-19. The age-55 catch-up of $1,000 per eligible individual applies only to those not yet enrolled in Medicare. Both spouses should be independently evaluated for eligibility. Michigan HSA deduction conformity should be confirmed with a Michigan-licensed CPA before relying on state tax savings.

AUGUSTA RULE — IRC §280A(g). Under IRC §280A(g), if a taxpayer rents their personal residence for **fewer than 15 days** during the taxable year, the rental income is not includible in gross income and the expenses attributable to the rental use are not deductible by the taxpayer. This provision is commonly referred to as the "Augusta Rule" or "Masters Rule." When the rental is made to a related party (such as the taxpayer's own S-Corp), the IRS may scrutinize the transaction under IRC §280A(d) and the related-party transaction rules. While IRC §280A(g) on its face applies to rentals to any person, including related parties, the IRS has at times asserted that the daily rental rate must reflect true fair market value and that the business purpose must be bona fide. The rental rate of $1,500/day used in this proposal is illustrative; the actual rate must be established by reference to documented comparable commercial venue rates in the taxpayer's specific market and retained in the S-Corp's records before each rental event occurs. The business purpose of each day must be documented contemporaneously with an agenda, attendees, and business outcome. If total rental days reach or exceed 15 in any calendar year, the exclusion is lost for the entire year and all rental income becomes taxable. Rental days must be counted carefully and the agreement must be in writing. The S-Corp's deduction for the rental payments is a separately analyzed question; the deduction must satisfy the ordinary and necessary business expense requirements of IRC §162. **The Augusta Rule has received increased IRS scrutiny in recent years; this strategy carries audit risk if not implemented with rigorous documentation. Do not implement without written guidance from a qualified tax attorney or CPA experienced with self-employed healthcare professionals.**

HOME OFFICE DEDUCTION — S-CORP ACCOUNTABLE PLAN. The Tax Cuts and Jobs Act of 2017 suspended the miscellaneous itemized deduction for unreimbursed employee expenses, including home office expenses, through at least 2025. S-Corp employees may not deduct home office expenses directly. Reimbursement through an IRS accountable plan allows the S-Corp to deduct the payments and exclude them from the employee's W-2, provided: (1) there is a business connection for the expense; (2) the employee substantiates expenses with documentation; and (3) excess advances are returned. The home office must satisfy the exclusive and regular use requirements of IRC §280A — the space must be used **only** for business and on a regular basis; any personal use disqualifies the deduction. Depreciation of the home office may also be available but creates potential recapture income upon sale of the residence; this proposal does not include depreciation benefit and recommends CPA analysis before claiming it.

CASH BALANCE PLAN AND SOLO 401(K). Contribution amounts are actuarial estimates only. The 2026 Section 415(b) defined benefit limit is $290,000; the 2026 Section 415(c) combined limit is $72,000. Combination plans may restrict profit-sharing contributions to 6% of W-2. The Mega Backdoor Roth requires specific plan document provisions. This proposal does not constitute actuarial advice.

BACKDOOR ROTH AND MEGA BACKDOOR ROTH. The 2026 Roth IRA phase-out for MFJ is $242,000–$252,000 MAGI per IRS Notice 2025-67. The pro-rata rule applies to all pre-tax IRA balances at year-end. Form 8606 must be filed for both spouses in any conversion year.

MICHIGAN INCOME TAX. Michigan's 2026 rate is 4.25% (flat), confirmed by the Michigan Department of Treasury (April 15, 2026). Michigan taxes all capital gains as ordinary income at 4.25%. City income taxes in Detroit and approximately 23 other Michigan cities are not reflected. Michigan does not recognize federal S-Corp treatment; Michigan taxes S-Corp income at the entity level under the Michigan Corporate Income Tax for certain entities — verify the applicable Michigan tax treatment of the S-Corp with a Michigan-licensed CPA and tax attorney before relying on Michigan-level projections.

INVESTMENT AND PORTFOLIO DISCLOSURES. Roth projections assume 8% annual gross return; HSA projections assume 6% annual return. These are hypothetical and not guaranteed. Actual returns will differ materially. Direct indexing and TLH benefits are not guaranteed and depend on individual security price paths, cash flows, and tax rates. Altruist backtest results (January 2020–May 2025) used California rates; Michigan results will differ. On Point model portfolio holdings and expense ratios shown are illustrative for template purposes. Investing involves risk, including possible loss of principal.

NO WARRANTY. All figures, estimates, and projections are illustrations only. All strategies and figures must be independently verified by qualified professionals before implementation or client presentation. Consult a qualified CPA, tax attorney, enrolled actuary, and benefits specialist before implementing any recommendation herein.